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REPORT

TO THE

COMMITTEE ON THE BUDGET

FROM THE

COMMITTEE ON VETERANS' AFFAIRS

SUBMITTED PURSUANT TO SECTION 301 OF THE CONGRESSIONAL BUDGET ACT OF 1974

ON THE

BUDGET PROPOSED FOR FISCAL YEAR 2003

MARCH 21, 2002.—Printed for the use of the Committee on Veterans' Affairs of the House of Representatives

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC, March 11, 2002.

Hon. JIM NUSSLE,
Chairman, Committee on the Budget,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: Enclosed with this letter is the Veterans' Affairs Committee's report on the fiscal year 2003 budget for veterans' benefits and services.

In developing our recommendations to the Committee on the Budget for funding of veterans' programs and the Department of Veterans Affairs (VA), the Committee has closely examined the Administration's proposal and has found that their recommendation, while a significant increase over prior year spending, does not sufficiently meet the needs of veterans as documented within their own budget proposal.

Most significantly, the Administration's budget request for veterans healthcare spending relies upon unrealistic cost-savings to meet a growing demand for VA healthcare services. Specifically, the Administration has proposed that a new $1,500 deductible be levied upon Priority 7 veterans, those who have no service connected disability and whose incomes are above poverty levels. As a result of this proposal, VA estimates 471,000 veterans would have healthcare services diminished or eliminated. Relying upon this assumption, the Administration reduced its request for healthcare spending by $1.1 billion for fiscal year 2003.

In this Committee's view, such a dramatic change in current VA healthcare enrollment rules would be a disservice to veterans, and one that we believe has no chance of approval in this Congress.

The latest projection from the Department of Veterans Affairs is that almost 700,000 more veterans will receive VA care in 2003 than had been projected last year for 2002. The hundreds of VA community outpatient clinics opened over the last six years, as well as the prescription drug benefit that provides a 30-day supply of medication for a modest $7 copayment, have produced an unprecedented increase in veterans using the VA healthcare system. The nation's 25 million veterans, particularly its elderly veterans who saw service during World War II and the Korean War, are voting with their feet for VA healthcare, and the VA system is being overwhelmed.

Last November, the Administration was considering whether to deny healthcare to Priority 7 veterans in response to a funding shortfall caused by errors in estimating the number of veterans who would seek VA healthcare. Fortunately, the Administration decided to seek the necessary funds in a supplemental appropriation, however Congress has not yet received their request. As a result, the Department of Veterans Affairs is short at least $300 million in the current fiscal year, and this demand-based shortfall must also be covered in the fiscal year 2003 budget by adding an additional $300 million.

The VA healthcare system is the largest integrated healthcare network in the world, with an infrastructure valued at over $35 billion. According to a 1998 Price Waterhouse report, the maintenance costs should average between 2 percent to 4 percent of the value, or between $700 million and $1.4 billion annually. The Administration request of $194 million for major construction falls far short of this requirement and the Committee therefore recommends an additional $191 million increase in major construction. Our recommendation is based upon documented immediate needs and follows the passage by the House last year of H.R. 811, the Veterans Hospital Emergency Repair Act, which would authorize an additional $550 million over two years for repairs to VA healthcare infrastructure.

The Committee also recommends a funding increase of $150 million above the Administration's proposal to meet statutory obligations for new programs approved by Congress and enacted into law during the past few years, including long-term care for older veterans and immediate assistance to homeless veterans. Further, the Administration requested just $55 million over prior year funding for emergency preparedness. The Committee believes that the VA is a unique national resource in times of national emergency, particularly their healthcare system and emergency management systems, and recommends an additional $200 million to fulfill these roles, given the new imperatives springing from the tragic events of September 11th.

The following report also contains numerous other recommendations for additional increases in funding over fiscal year 2002 levels, many of which are above the amounts requested by the Administration. All totaled, the Committee's analysis contained in the following Views and Estimates Report documents an additional unmet need of approximately $2.2 billion in discretionary funding above the Administration's budget proposal.

While the President's budget does contain a record increase in funding for veterans benefits and services, it is not adequate to meet the documented needs. If we are to fulfill our obligations to care for America's veterans and their families, we must be willing to provide the needed resources. We thank the Committee on the Budget for considering our recommendations, and look forward to working with you to ensure that we "leave no veteran behind."

Respectfully,

CHRISTOPHER H. SMITH,
Chairman

LANE EVANS,
Ranking Democratic Member

BACKGROUND AND COMMITTEE RECOMMENDATIONS

The Committee on Veterans' Affairs has carefully analyzed the Department of Veterans Affairs Fiscal Year 2003 Budget Submission.[1] *The Members of the Committee believe that substantially increased funding for veterans' healthcare will be necessary in order to fulfill Congressional mandates. New challenges and new veterans lead to the inescapable conclusion that we must provide the funding needed now by veterans who are filling VA's outpatient clinics in unprecedented numbers.*

DEPARTMENT OF VETERANS AFFAIRS

VETERANS HEALTH ADMINISTRATION (VHA)

Rising Demand for VA Healthcare.—The Department of Veterans Affairs (VA) operates the largest and most extensive system of healthcare services in the United States. Since 1996, it has reformed its delivery system, emphasizing primary and managed care, and expanded points of service. It has also launched a formal enrollment system for veterans who seek VA care, and attracted over six million veterans to enroll in the VA healthcare system. The VA system has the world's most advanced patient safety program and provides a superior quality of care.

Nevertheless, VA healthcare struggles today, because appropriated funding is not keeping pace with growth in enrollment and the increased demands for service. Further, much of VA's physical infrastructure is old, crumbling and in immediate need of hundreds of millions of dollars in repairs, restorations and upgrades. In 2001, serious damage to several buildings demonstrated VA's seismic vulnerability at its American Lake facility in the State of Washington. So far, repairs at that facility have been completed only on a patchwork basis. VA has dozens of other buildings in earthquake zones at serious risk of seismic catastrophe.

Many veterans enrolled in the VA healthcare system report difficulties in obtaining timely appointments for care and services. Some clinics, such as one in Rockford, Illinois, report waiting times in excess of one year for routine appointments. In discussions with VHA officials, Committee staff has been informed that funds are short in every network and every region, and that any gains made in the reallocation of resources to balance funding across the nation have been overwhelmed by new demands.

The Secretary of Veterans Affairs, Honorable Anthony J. Principi, on February 13, 2002, presented the VA's budget request for fiscal year 2003 to the Committee on Veterans' Affairs. In his testimony, the Secretary observed: "Perhaps we're the victim of our

[1] 2003 Administration Request is calculated without proposed accrual funding for federal retiree costs.

own success in many ways, but the VA has seen extraordinary growth in our workload since open enrollment came about in the mid-1990s; 30 percent overall growth in workload in the number of veterans who are coming to us for care, that's grown from 2.4 million to 3.4 million; and in addition in Category 7, so [it's a] 500 percent increase since 1996."

"Demand Initiative".—The budget proposal the Secretary presented includes a "Demand Initiative" request of $1.8 billion in funding for new veterans expected to seek VA healthcare in fiscal year 2003. The Department's budget proposal also states an intention to implement management improvements that would achieve $317 million in savings for fiscal year 2003.

The Committee agrees with the Department that healthcare demands from newly enrolled veterans should be accounted for and funded in the budget, and the Committee commends the Secretary for this forthright approach. However, the Committee is skeptical of the VA's ability to quickly implement and annualize management improvements. Therefore, the Committee accepts the premise that $217 million in savings can be achieved in fiscal year 2003.

Legislative Proposal for $1,500 Deductible.—In 1996, Congress reformed veterans' healthcare eligibility with Public Law 104–262, mandating VA care for service-connected and low-income veterans, and permitting care for nonservice-connected, higher income veterans on a resource available basis. VA established a seven-tier healthcare priority system for veterans. VA's treatment focus shifted to primary care, and VA began a rapid expansion of access points. Today VA has over 800 community clinics that provide primary care and serve as the referral system for its 172 medical centers.

The budget request for fiscal year 2003 includes a proposal that Congress impose an annual healthcare deductible of $1,500 for Priority 7 veterans. This group consists of nonservice-connected and noncompensable zero percent service-connected veterans who are enrolled in VA healthcare. Priority 7 veterans have incomes above VA's means test threshold ($24,304 for a single veteran and $29,168 for a veteran with one dependent), and must make copayments set by the Secretary as a condition of eligibility.

The budget request reports rapid growth in Priority 7 enrollment, with nearly 1.9 million veterans enrolled now, about 33 percent of total enrollees. It projects enrollment by Priority 7 veterans will increase to 42 percent of all VA enrollees by 2010. For fiscal year 2003, VA's budget projects that it would need an additional $1.1 billion above the budget request level to meet projected demand for healthcare by Priority 7 veterans. According to VA, the proposed deductible of $1,500 would produce $260 million in additional revenue for fiscal year 2003, reduce projected enrollment by 121,000 veterans, discourage utilization by hundreds of thousands of additional veterans, and thus save VA $885 million. The estimated total savings to VA would be $1.1 billion.

In his testimony before the Committee on February 13, 2002, the Secretary stated that each Priority 7 veteran's healthcare is expected to cost approximately $1,800 annually, but VA chose $1,500 as the deductible amount proposed, without further explanation.

The proposal is inconsistent with a new policy the President approved in Public Law 107–135 on January 23, 2002, to lower by 80 percent VA's existing deductible for inpatient hospitalization for certain veterans. Thus, if Congress approves VA's proposal to impose a new $1,500 deductible, it would reverse a course set in law only a short time ago. It would also reverse a policy adopted by the VA in December of 2001 to reduce the required copayment for routine outpatient visits.

In making this proposal, the Department does not appear to have considered the effect on its existing collections system. VA depends on collections from veterans and their private insurers for a significant and growing portion of its revenues to support care. Under current law, VA charges copayments for inpatient, outpatient, nursing home and other extended care, as well as for prescription drugs for all Priority 7 veterans. The copayment requirement for prescription drugs also applies to those veterans whose incomes exceed the current VA nonservice-connected pension rate, approximately $9,000 per year under current law. In Public Law 106–117, Congress authorized the Secretary to review the copayments policy and implement a more rational system. VA recently changed a number of these policies.

Even if Congress were to quickly enact and the President were to sign this proposed legislation, it is doubtful that VA could administratively implement the deductible policy until late in fiscal year 2003, if at all. VA would need at least several months to issue implementing regulations, including opportunity for public comment. VA would also need to establish a method to account for each veteran's deduction status in an annual accounting cycle. The deductible amount would be directly chargeable to a veteran only if the veteran were uninsured. Collections from insurers are complicated and often significantly delayed from the time VA sends bills. Further, VA collects only a small fraction of billed charges in its existing Medical Care Collection Fund programs. Implementing a new individual deductible would only add to the administrative difficulties. The Committee believes the new deductible would have at best a small effect on funds or workload in fiscal year 2003. The Committee recommends Congress reject this proposal and instead enhance VA's budget request with the additional appropriated funding needed to sustain VA Priority 7 workload during fiscal year 2003.

Inflation.—Medical inflation for 2001 in the United States was reported to be 4.6 percent overall. In the coming year, inflationary increases will occur for the Department in health insurance and managed care premiums for its more than 200,000 employees, transportation and energy costs, maintenance on thousands of buildings, and particularly in higher cost for prescription drugs for nearly six million enrolled veterans.

Prescription drug cost inflation in this country is of special concern, because it has risen from 3.6 percent in 2000 to 6.2 percent in 2001, according to the commercial publication, "Health Inflation News," December 31, 2001. The Bureau of Labor Statistics estimates 2001 inflation of pharmaceuticals and medical supplies at 5.99 percent. The proposed budget predicts VA pharmaceutical cost increases of 8.58 percent above the Administration's projected medical inflation rate of 3.9 percent. Inflation in U.S. hospital inpatient care rose from 5.6 percent in 2000 to a current 6.9 percent. The terrorist attacks of September 11, 2001 will also contribute to health inflation due to unplanned increased utilization of both public and private healthcare resources. The Committee supports VA's request in the budget for $396 million to address healthcare inflation in fiscal year 2003.

Implementation of New Veterans Healthcare Authorities.—The full cost of implementing new laws was not taken into account in the Department's budget submission. The Homeless Veterans Comprehensive Assistance Act of 2001, Public Law 107–95, requires VA to significantly expand programs and services for homeless veterans in conformance with the legislation's stated goal of ending chronic homelessness in the veteran population within 10 years. VA included in its budget request only $8 million for additional programs for homeless veterans. The Department of Veterans Affairs Health Care Programs Enhancement Act of 2001, Public Law 107–135, expands existing health programs, creates new ones, and enhances accountability of VA in maintaining certain VA healthcare services to disabled veterans. In total, the Committee believes that these legislative measures will require $100 million in implementation costs for fiscal year 2003.

Over the past year, the Committee has observed long-term care bed reductions in VA facilities. VA's position is that it cannot afford to maintain the beds required by law, and VA has even suggested Congress change the law to permit VA to "credit" its capacity maintenance requirement with beds in the state home system and in the private sector. The Committee rejects such an approach, and insists that VA observe the requirement to maintain a share of the responsibility to care for old and ill veterans in its own beds, rather than sending these patients outside the VA. To partially restore some of the capacity that VA has reduced in the past several years since Congress imposed these capacity restrictions, the Committee recommends an additional $51 million for fiscal year 2003. This is in addition to the $121 million requested by VA as part of its healthcare demand initiative.

Emergency Preparedness.—A number of initiatives have been launched in Federal agencies to deal with both the immediate and longer term needs of addressing terrorist threats to the Nation's security and safety. The Department of Veterans Affairs should play a role in this effort because it operates the only nationwide civilian healthcare system. The funding requested in the 2003 budget for this function, $55 million, would be insufficient for this very complicated and expensive task. Therefore, the Committee recommends an increase of $200 million in this account for a total allotment of $255 million for fiscal year 2003.

Major Medical Facility Construction.—Last year the House passed H.R. 811, the Veterans Hospital Emergency Repair Act, and the House Committee on Appropriations provided $300 million for its implementation in fiscal year 2002. However, the Senate did not act on the bill and the House-Senate conference on VA appropriations did not include the proposed funding. A number of urgent infrastructure projects remain without funding in the Department. In its budget request, the Department proposes only $94 million for major medical facility construction to fund four VA seismic projects in the San Francisco and Los Angeles areas of California. Each of these projects has been proposed before as top VA priorities, and has been authorized previously by Congress.

The Committee's views on VA healthcare infrastructure needs have not changed since last year. Immediate needs must be met. Congress should commit funding and provide authority to enable the Secretary of Veterans Affairs to complete at least half of the top twenty infrastructure projects identified by the Secretary in the annual report required by law. Funding these projects is essential to helping VA maintain a safe and decent healthcare system for veterans. The Committee recommends VA's request be supplemented with an additional $191 million for major medical facility construction funding, including funding for the San Diego, California, seismic corrections project, a total of $285 million for fiscal year 2003. The Committee also recommends VA be provided with $250 million in fiscal year 2003 for minor construction.

Medical and Prosthetic Research.—After discounting amounts included for accrual of retiree costs, the Department's budget proposes $394 million for VA's medical and prosthetic research activity in fiscal year 2003. The Committee fully supports this request.

VETERANS BENEFITS ADMINISTRATION

General Operating Expenses.—The General Operating Expense account funds full-time employee equivalents (FTEE) and operating expenses for both the Veterans Benefits Administration (VBA) and VA's Central Office (headquarters). VBA administers a broad range of non-medical benefits for veterans, their dependents, and survivors through 57 regional offices. These programs include compensation and pension, education, vocational rehabilitation, insurance, and loan guaranty (home loans). Headquarters employees include the Secretary's staff and other VA administrative staff located in Washington, DC.

From October 1, 2001 through March 1, 2002, the pending backlog of claims for benefits has increased each week by an average of 3,025 claims, in large part due to VA having to apply new duty-to-assist standards and review almost 350,000 claims. In light of the increased workload and recent legislative changes, including a repeal of the 30-year time limitation for respiratory cancers and the addition of Type 2 diabetes to the presumptive list for Vietnam veterans, the Committee supports the Administration's funding increase for 106 additional FTEE for development of Virtual VA (a paperless claims prototype), additional quality reviews of claims adjudication decisions, and redesign of the compensation and pension medical evaluation system.

VA has reported a significant improvement in the quality of its claims decisions in the last few years. According to VA's *Departmental Performance Plan*, overall rating accuracy (including procedural and substantive errors) in fiscal year 2001 was 78 percent, a considerable improvement from the 59 percent accuracy rate reported in fiscal year 2000. According to the Secretary in testimony before the Committee on February 13, 2002, the accuracy rating today is 88 percent. Nationally, accuracy for authorization work reportedly improved from 51 percent in fiscal year 2000 to 62 percent in fiscal year 2001. In addition, the reported accuracy for fiduciary work improved from 60 percent in fiscal year 2000 to 68 percent in 2001. For fiscal year 2002, VBA has revised its rating accuracy criteria; only "clear and unmistakable errors" and errors which are expected to result in a remand on appeal will be counted in determining the accuracy rate.

VBA's 57 regional offices process about 24 million pieces of mail and answer about nine million phone calls annually in administering the veterans' benefits system. The average VA rating specialist will make about three-quarters of a billion dollars in ratings decisions through the awards he or she authorizes over a 20-year period. The Committee supports the Administration's request which provides an additional 106 FTEE to provide increased quality review of the larger compensation and pension workload associated with recently enacted legislation and regulations and to support several VBA initiatives to improve claims processing.

The Committee recommends that the General Operating Expenses account be increased by an additional $5 million for fiscal year 2003 to provide 78 additional FTEE as human resource staff for regional offices. Regional offices currently lack adequate on-site experienced human resource personnel to provide assistance and advice to management on personnel-related issues. These include employee relations, equal opportunity complaints, accommodation for workers with disabilities, personnel actions, labor-management issues, local community relations, retirement planning, and other human resource activities involving face-to-face interactions. With employee retirements expected to increase and regional offices consequently employing a large percentage of trainees, the need for additional local human resource personnel has become apparent.

This additional funding will provide one GS–12 Personnel Management Specialist, one GS–11 Personnel Management Specialist and one GS–5 or 6 Clerical support staff for each of the 20 largest regional offices. The remaining personnel (six GS–12, five GS–11, personnel specialists and five GS–5 clerical) would be available to VBA for allocation to regional offices where additional staff is warranted due to the size of the office, special personnel problems exist, or for other compelling reasons. With this addition of human resources staff to regional offices, regional office management will be able to devote more time to analyzing and managing claims processing activities, providing appropriate counseling to employees in training status and those transitioning to retirement, improving labor management relations and improving community relations. These human resources staff positions are intended to supplement and not replace personnel who are currently performing human resource liaison activities at regional offices.

Compensation and Pension Service (C&P).—The ability of VA to achieve timely and quality benefits delivery is heavily dependent on a combination of an adequate number of properly trained staff, effective business process reengineering and computer modernization initiatives, training and retention incentives, inter-departmental cooperation between VA and both the Department of Defense and the National Personnel Records Center, and assistance from veterans service organizations.

In 1993, when Congress was contemplating legislation that created the Veterans' Claims Adjudication Commission, the pending claims workload was 570,000; when the VA Claims Processing Task Force issued its report in October 2001, the pending claims workload was 533,000. As of March 1, 2002, VBA had 599,121 claims pending at VA regional offices. The increase is due in large part to VA complying with new duty-to-assist standards for 244,000 pending claims, as well as the readjudication of 98,000 claims that had been previously denied under former duty-to-assist standards established by the U.S. Court of Appeals for Veterans Claims. VA also received a much larger than expected influx of claims for diabetes related to service in Vietnam. Additional statutory and regulatory presumptions for service connection of disabilities of atomic veterans and Vietnam veterans are expected to increase the pending caseload further.

During fiscal year 2001, rating decisions required an average of 181 days to process, up from 173 days during fiscal year 2000. The Secretary of Veterans Affairs has publicly announced a goal of 100 days to process rating-related claims by the summer of 2003. The Committee applauds the Administration for putting a high priority on improving timeliness, but is concerned that in an effort to improve timeliness so dramatically in the stated timeframe, training and supervision of new employees and the quality of VA claims processing may be adversely affected. Some VA regional offices indicate that training staff, decision review officers, supervisory and management employees have been devoting significant amounts of time to claims adjudication activities.

Through the first five months of fiscal year 2002, VA reports completing 294,000 rating-related actions and has an expected completion rate of 800,000 claims for the fiscal year. This would represent a substantial increase compared to the 482,000 rating-related claims processed in 2001. Although "output" has increased, the backlog has continued to grow. In light of increases in production, the Committee is puzzled by the continued growth in the backlog. The Committee supports initiatives aimed at improving the processing of veterans' and dependents' claims and the continued emphasis on claims accuracy. However, the Committee encourages the Department to strive for a proper balance in the direct labor hours devoted to new employee training and supervision and to appellate matters as well.

According to the VBA Annual Benefits Report for Fiscal Year 2000, among the disabilities most frequently service-connected for veterans who began receiving compensation in fiscal year 2000 are those involving musculoskeletal conditions (42 percent) and impairment of auditory acuity (10.8 percent). VBA should anticipate that as the veteran population ages, these types of service-connected conditions will worsen and veterans will reopen their claims. At the beginning of fiscal year 2001, the 50 to 59-year old age group had the most veterans receiving service-connected compensation and also received the highest average dollar amount of compensation.

During fiscal year 2000, 83,159 veterans began receiving disability benefits, 46 percent of whom received a combined disability evaluation of 30 percent or higher. The Committee notes 81.8 percent of approximately 265,000 disabilities among the 83,000 veterans who began receiving compensation during fiscal year 2000 were zero or ten percent disabilities. Gulf War veterans have an average of 3.26 disabilities per veteran, while World War II veterans have an average of 1.82 disabilities per veteran.

For the combined degrees of disability at the beginning of fiscal year 2001, distribution of all service-connected disability ratings was:

- 7.4 percent of veterans (170,307) rated at 100 percent;
- 5.1 percent of veterans (118,638) rated at 50 percent;
- 13.4 percent of veterans (308,893) rated at 30 percent;
- 36.3 percent of veterans (838,886) rated at 10 percent.

VA adjudicators work with over 1,000 pages of regulations, 700 different disability codes and 113 presumptive conditions. They must also comply with hundreds of precedential decisions of the U.S. Court of Appeals for Veterans Claims as well as decisions by the U.S. Court of Appeals for the Federal Circuit and opinions of VA's General Counsel. It takes three years to train a rating veterans' service representative. During the 1990's, the number of fully trained personnel in the adjudication division declined by approximately 40 percent.

Although additional staffing was authorized during the past two fiscal years, many regional offices currently have between 25 percent and 66 percent of their employees in training status. One-third of the VBA staff is expected to retire within the next five years. However, if veterans service organizations and state and county veterans affairs departments would fully develop ready-to-rate claims, the effect would be about the same as adding 3,000 additional staff to help develop claims. According to testimony by the former Under Secretary for Benefits, Joseph Thompson, before the Subcommittee on Benefits, this could result in speedier decisions and greater acceptance of the VA's initial decision.

The Committee commends the creation of the VA Claims Processing Task Force and the Departments' rapid implementation of several Task Force recommendations with respect to workload and productivity, accountability, organizational structure, and information technology. Among the noteworthy initiatives are:

- Creation of a "Tiger Team" at the Cleveland Regional Office responsible for resolving about 81,000 of the oldest claims for disability compensation and wartime pensions of veterans aged 70 and older;
- Consolidating all existing pension maintenance program operations at three pension maintenance centers;
- Creation of six specialized teams to manage the claims process, with pilot operations at four sites;
- Organizational realignment of Board of Veterans' Appeals processing;
- Extension of the timeframe for routine follow-up compensation and pension exams;
- A plan for reorganization of compensation and pension regulations, as well as the operational manual; and

- A centralized training model for an integrated program of compensation and pension technical training.

As of January 2002, of the 34 Task Force recommendations, comprising 66 action items, VA has completed six action items, 16 action items are to be completed within six months, and 29 action items are to be completed within six to 12 months.

VA continues to make improvements to its disability and education claims processing programs, as well as expand outreach to servicemembers, veterans, and eligible dependents. Improving the timeliness and quality of the claims process is appropriately a top priority. The Committee supports funding of $1.271 billion for General Operating Expenses, including the additional 106 FTEE recommended by the Administration's budget and an additional 78 FTEE for human resources activities at the 20 largest regional offices.

Vocational Rehabilitation and Employment Program (VR&E).—The goal of the Vocational Rehabilitation and Employment program is the employment of disabled veterans and eligible dependents. To accomplish that goal, VR&E is authorized to furnish all services and assistance necessary to enable service-connected disabled veterans to become employable, obtain and maintain suitable employment, or to achieve maximum independence in daily living. Additionally, VR&E is authorized to provide educational and vocational counseling services to eligible active-duty members, veterans and dependents.

In 2000, VR&E assumed its current name to reflect an emphasis on employment as the program's ultimate goal. The Committee has been pleased with recent VBA initiatives to promote better case management, lifecycle completion times and success rates. The Committee also notes VR&E's continued progress in implementing Employment Service Specialist positions into existing service delivery schemes.

The VA reports improved job placement rates in its VR&E program. In fiscal year 2001, 53 percent of rehabilitated disabled veterans acquired suitable employment. During the first five months of fiscal year 2002, 67 percent did so. The Committee supports the Administration's request of 1,205 FTEE in the Vocational Rehabilitation and Employment program, an increase of 27 FTEE over fiscal year 2002.

Educational Assistance Programs.—VA's Education Service administers the All-Volunteer Force Educational Assistance Program (Montgomery GI Bill, chapter 30 of title 38, United States Code), the Post-Vietnam-era Veterans' Educational Assistance Program (chapter 32), the Vietnam-era Veterans' Educational Assistance Program (chapter 34), the Survivors' and Dependents' Educational Assistance Program (chapter 35), and numerous other activities, including overseeing the role of State Approving Agencies and coordination with the Department of Defense on the Selected Reserve program of the Montgomery GI Bill (MGIB).

The Veterans Education and Benefits Expansion Act of 2001, Public Law 107–103, increased the basic benefit under the MGIB program for an obligated period of active duty of three years or more from $672 to $800 effective January 1, 2002, $900 effective

October 1, 2002, and $985 effective October 1, 2003. The Act also included improvements to Survivors' and Dependents' Education Benefits, Internet-based education, high technology education and courses offered through the private sector, certain Vietnam-era veterans' education benefits, and other areas. The improved benefit levels will likely contribute to continuing workload challenges for VA. For fiscal year 2003, VA estimates 325,815 veterans and servicemembers will participate in the MGIB chapter 30 program alone.

The Committee notes that about six weeks prior to the 2001 fall semester, VA had a pending workload of about 90,000 education claims at VA's four regional processing offices. VA addressed the fall education workload by hiring additional staff, authorizing overtime, and streamlining certain claims processing measures. Nevertheless, the average time to process an original education claim increased from 36 days in fiscal year 2000 to 50 days in fiscal year 2001. Further, the "blocked call" rate increased from 39 percent in 2000 to 45 percent in 2001, an unacceptable level when compared with the three percent blocked call rate in other VBA activities. The increase appears to be attributable in some part to a greater than expected number of calls received by the four regional processing offices assuming responsibility for administering a nationwide toll-free GI Bill telephone inquiry line. VA expects to improve the blocked call rate by enhancing VA's education service website to provide electronic alternatives to telephone services and by increasing the number of seasonal employees for peak usage periods.

The Committee notes timeliness in VA education claims processing reached a five-year low in fiscal year 2001—in large part due to transferring 50 FTEE in fiscal year 1999 and 45 FTEE in fiscal year 2000 to the Compensation and Pension program and the transfer of all educational inquiries (about three million calls annually) from 57 regional offices to four regional processing offices without additional FTEE. The Committee disfavors such transfers of personnel, as they tend to create dysfunction in one program in order to improve another.

VBA has implemented a prototype, The Expert Education System (TEES), that is able to process selected enrollment information for MGIB claimants for whom data has been submitted electronically from their educational institution. The Administration has requested $6.3 million for TEES. The Committee recommends $16 million to enhance TEES automation, an increase of $9.7 million compared to the Administration's request. Based on testimony before the Committee and projections contained in the Independent Budget, $16 million is needed in order for the automated data exchange between VA and schools to be maximized. The Committee expects there will be fewer delays and greater accuracy for veterans receiving education benefits once this system is completely implemented.

One-VA Telephone Access Initiative.—The Virtual Information Center (VIC) forms a single telecommunications network among several regional offices. VIC technology also allows VBA to answer calls at any place and at any time without complex call routing reconfigurations and with fewer FTEE. Also included in this initiative is support for upgrading the National Automated Response

System to allow improved call flow design, increased Interactive Voice Response and customer survey functionality. The Committee supports the fiscal year 2003 budget request of $10.8 million for this project.

Vendee Loans.—When a purchaser agrees to buy a foreclosed VA home, VA often offers to finance the sale by establishing a vendee loan to encourage the prompt sale of the home. Vendee loans are made at market interest rates and often require a down payment. Borrowers are charged a 2.25 percent funding fee that is paid in cash.

The Committee views vendee loans as an important tool to obtain a higher return on property sales, which reduce the overall cost of program operations. VA makes, and subsequently sells, $800 million to $1.2 billion in such loans each fiscal year. There is an ample body of empirical data indicating that offering vendee financing results in higher returns on taxpayer investment in VA's loan guaranty program. In March 2000, Booz, Allen, and Hamilton, Inc. independently analyzed the cost effectiveness of vendee loan financing. Their report indicated a savings to the Government of $16 million in fiscal year 1999 due to vendee financing.

A preliminary, informal estimate by the Congressional Budget Office shows a projected loss of $745 million over 10 years if VA were to eliminate vendee loans, largely due to a lower purchase price on such foreclosed VA-financed homes. The Committee believes the vendee loan program is based on sound business principles and produces cost-effective results. The Committee opposes the President's budget proposal to eliminate the vendee loan program administratively in fiscal year 2003.

State Cemetery Grants Program.—The State Cemetery Grants Program provides grants to assist states in establishing, expanding, and improving state-owned veterans' cemeteries. The State Cemetery Grants Program is not a replacement of VA's national cemetery program, but is one way of increasing the availability of state veterans' cemeteries to serve veterans who do not reside near an open national cemetery. Since the program became active in 1980, the State Cemetery Grants Program has awarded more than $108 million in grants: 53 grants for the initial establishment of new state cemeteries and 56 new grants for expansion or improvements. There are 48 open state veterans cemeteries in 25 states and Guam, and 37 pending grant applications.

With the implementation of the Veterans Program Enhancement Act of 1998, interest in the State Cemetery Grants Program has accelerated. Public Law 105–368 increased the federal government's share of the cost for establishing, expanding or improving a state veterans' cemetery from 50 percent to 100 percent. The Committee supports the Administration's requested increase from $25 million to $32 million in fiscal year 2003.

NATIONAL CEMETERY ADMINISTRATION

Currently, the National Cemetery Administration (NCA) maintains more than 2.4 million gravesites in 120 national cemeteries, as well as 33 soldier's lots and monument sites. These national shrines honoring those who served in uniform should be maintained as places of high honor, dignity and respect. Since 1973, when NCA was established, annual interments in national cemeteries have more than doubled from 36,400 to 84,822 in fiscal year 2001. Last year, VA provided an estimated 304,000 headstones and markers compared to 190,000 headstones in markers in 1973. VA estimates that 663,000 veterans died in fiscal year 2001, 89,000 more than the number who died in fiscal year 2000.

Veterans' deaths are expected to peak in 2006. In order to meet the demand for burial space, section 611 of Public Law 106–117 directed the Secretary of Veterans Affairs to establish six additional national cemeteries in those areas the Secretary deems to be more in need. The Committee supports the fiscal year 2003 budget request of $23 million for development of a cemetery in southern Florida and $16 million for development of a cemetery in Pittsburgh. The fiscal year 2002 budget request included $28 million for the Phase I development of a cemetery in Atlanta, Georgia. On November 2, 2001, the first section completed at the Ft. Sill, Oklahoma, national cemetery was dedicated, and interments are being conducted. VA expects to report in May 2002 to Congress on the status of these new cemeteries, as well as those in Detroit, Michigan, and Sacramento, California.

Congress has been active in ensuring that the final resting place of our veterans is befitting their service to the nation. Section 613 of Public Law 106–117 also directed the Secretary of Veterans Affairs to enter into a contract to assess the standards of appearance of active national cemeteries, and the feasibility of making standards of appearance of closed national cemeteries commensurate with standards of appearance of the finest cemeteries in the world. The Standards of Appearance Report is expected to be released in March 2002. The Committee supports the Administration's request for $133 million in fiscal year 2003—a $17 million increase over last year—as well as an additional 59 FTEE.

BOARD OF VETERANS' APPEALS

In fiscal year 2001, the Board of Veterans' Appeals (BVA) issued 31,557 decisions. Of those, 91 percent (28,698) involved the compensation program. The cases include claims for service-connection, increased ratings, dependency and indemnity compensation, and earlier effective dates. About two percent (579 cases) involved more than one program. Almost 50 percent of the claims appealed were remanded to regional offices. The Board allowed another 22 percent of the claims appealed. Only 26 percent of the appeals were denied.

There was substantial difference in performance among regional offices. Appeals from the Manila, Fargo, St. Paul, and Milwaukee regional offices were reversed or remanded much less frequently than the national average. Appeals from Columbia, Wilmington, Montgomery, and Newark regional offices were reversed or remanded in a high percentage of cases. The Committee is concerned about the significant differences in reversal and remand rates among regional offices.

For fiscal year 2003, BVA projects that it will take an average of 520 days to process an appeal. At the end of fiscal year 2001, 7,731 cases were pending before the Board, down substantially from 20,521 cases at the end of fiscal year 2000.

The Committee recognizes that as a result of Public Law 106–475, which requires VA to assist a claimant in obtaining evidence, a significant number of claims were remanded to regional offices by the Board. In an effort to assist with the increased caseload at the regional offices and reduce the number of remanded appeals, in 2002 VA issued a regulation allowing BVA to obtain and clarify evidence rather than remand the appeal to the originating regional office. By reducing the number of appeals remanded, BVA may be able to shorten both appeal processing times and reduce the number of claims awaiting decisions at regional offices.

The Committee supports the Administration's request of $51.2 million and 451 FTEE for BVA. The Committee notes that this request will reduce the number of FTEE for BVA decisionmakers by 34 from the 2002 original budget estimate and by 14 from the 2002 current estimate. While the BVA workload has decreased during the current fiscal year, the Committee cautions that as the effect of the duty-to-assist legislation decreases and the number of claims decided by regional offices increases, BVA staffing may prove to be insufficient. It will not improve claims processing for veterans if the regional office pending workload is decreased and VA pending workload increases. The Committee intends to carefully monitor these outcomes.

OFFICE OF INSPECTOR GENERAL

The VA Office of the Inspector General (OIG) exists to ensure veterans programs are managed efficiently and effectively, and are free of fraud, waste and abuse. OIG reports that the monetary benefits of their activities usually provide a return on investment of 30 to 1. In 1999, OIG reestablished cyclical audits under a Combined Assessment Program (CAP) that provides on-site reviews of VHA and VBA facilities as a joint effort of OIG's Audit, Healthcare, Inspections and Investigations sections. These audits were severely curtailed in 1993 because of staffing reductions, and were finally ended in 1995. Current OIG staffing levels will allow a CAP review of each VA healthcare facility every six years. A six-year interval between audits is not in the best interest of veterans or taxpayers.

The Committee notes Congress established a statutory OIG staffing floor of 417 FTEE in Public Law 100–527. Section 312 of title 38, United States Code, requires the budget transmitted to Congress for each fiscal year to be sufficient to support this statutory floor. This requirement has not been met since 1993. Current OIG staffing supported by appropriations is 405 FTEE. An additional 24 FTEE are supported by reimbursements received for Department contract review activities.

In December 2001, Public Law 107–103 tasked the OIG to identify fugitive felons who are disqualified from receiving VA compensation and pension benefits. The OIG estimates that the annual amount of the benefits could be as high as $104 million. The OIG estimates that it will require 37 FTEE to fully implement this new legislative requirement.

Increased OIG staffing is a prudent use of resources. Accordingly, the Committee supports an appropriated funding increase of $10.1 million for 92 additional FTEE in fiscal year 2003. This increase would allow OIG to comply with the new legislative requirements of the fugitive felon program without impairing its current operations, reduce its CAP review cycle to four years, and bring OIG into compliance with the staffing floor. An adequately staffed OIG would improve quality and access for veterans' healthcare, increase VA security against fraud and theft, and result in improved overall management. The Committee therefore recommends overall funding of $69.1 million for OIG for fiscal year 2003, which would support 497 FTEE.

DEPARTMENT OF LABOR

VETERANS' EMPLOYMENT AND TRAINING SERVICE (VETS)

Congress has determined that our nation has a responsibility to meet the employment and training needs of veterans. To accomplish those goals, the Veterans' Employment and Training Service (VETS) of the Department of Labor provides job services for veterans through grants to state employment services.

The Committee is aware of significant changes in the national labor exchange system that are not a part of the delivery system for veterans' employment and training services under chapter 41 of title 38, United States Code. States are changing the way they deliver employment services and adopting new service delivery models. These range from devolving state programs to the county level, competing some or all employment functions, instituting one-stop employment centers under the Workforce Investment Act of 1998, and using Internet-based job placement services under America's Job Bank and America's Talent Bank. Also, the current version of chapter 41 predates requirements of the Government Performance and Results Act to focus on performance measurement and outcomes.

The Committee finds the performance of the VETS program to be unsatisfactory. The General Accounting Office (GAO) reports that seven out of ten veterans that visit state employment security agencies do not get jobs. The Committee expects to consider legislation to promote effective job service delivery for veterans in the 21st century. Fundamental objectives of such legislation would be to help veterans get jobs, ensure fairness to states in grants, give states greater flexibility to manage, reward states that do well, and allow all states an equal chance to excel.

Between 1997 and 2001, GAO issued seven reports on veterans' employment and training services identifying serious deficiencies in VETS planning and performance. The President's fiscal year 2003 budget submission would transfer to VA three grant programs: (1) the Local Veterans Employment Representatives (LVER), (2) the Disabled Veterans Outreach Program (DVOP), and (3) the Homeless Veterans Reintegration Program (HVRP). In addition, the Transition Assistance Program, which provides job training, employment assistance, and other transitional services to separating servicemembers, would also be transferred to VA. The Office of Management and Budget, VETS, and VA have working groups focusing on various administrative, financial, and legislative implications of the proposed transfer. The total transfer of funding to VA would be $197 million. The transfer also includes shifting 199 VETS employees (state directors and assistant directors and their staffs) to VA. In the absence of a detailed plan and a legislative proposal to accomplish this transfer, the Committee reserves judgment on a transfer of VETS to VA.

Therefore, the Committee recommends $214 million for VETS in fiscal year 2003, including $81,615,000 for DVOP services, $77,253,000 for LVER services, $27,776,000 for administration, $3 million for the National Veterans' Training Institute, $50 million for HVRP, and $7,550,000 for the Veterans Workforce Investment Program.

LEGISLATION THE COMMITTEE MAY REPORT WITH DIRECT SPENDING IMPLICATIONS

State Approving Agencies (SAA).—The Committee recommends legislation to increase funding available to State Approving Agencies (SAAs) from $14 million to $18 million in fiscal year 2003, and to increase such funding by three percent in each of fiscal year 2004 and fiscal year 2005. SAAs approve colleges and employers for veterans' training under VA education programs. The Committee's legislation reflects the SAA's new duties in occupational licensing and credentialing, and veteran, servicemember and employer outreach in each state. The Committee notes from fiscal years 1989 to 1994, SAA funding was capped at $12 million with no annual increases. From fiscal years 1995 to 2000, such funding was capped at $13 million. However, for fiscal years 2001 and 2002, Congress furnished SAAs a temporary increase in funds from $13 million to $14 million. In the absence of legislation, SAA funding for fiscal year 2003 reverts to $13 million, the fiscal year 1995 funding level.

Dependency and Indemnity Compensation for Surviving Spouses Who Remarry after Age 55.—Dependency and Indemnity Compensation (DIC) provides a partial substitute for the economic loss suffered by the survivors upon the service-connected death of a veteran. For a survivor to be eligible, the veteran must have died during military service, from a service-connected disability, or have had a service-connected disability that was rated 100 percent for a certain period of time before dying from a nonservice-connected condition. DIC terminates upon the remarriage of a surviving spouse, although benefits may be restored in the event that the subsequent remarriage ends in death or divorce. Civil Service, Central Intelligence Agency and Social Security survivorship programs allow surviving spouses to remarry at older ages and retain their survivor benefits. The Committee will consider legislation to allow a surviving spouse who remarries after age 55 to retain DIC benefits. The Congressional Budget Office (CBO) informally estimated the additional cost of this eligibility change to be $107 million in the first year, $1.4 billion over five years, and $3 billion over 10 years.

Uniform Home Loan Fees for Active Duty and Reservists.—Currently, certain home loan fees paid by members of the Selected Reserves are 0.75 percent higher than the fees paid by active duty personnel. Given the significant contribution to military activities currently performed by reservists and the relatively low default rate of their loans, the higher fees are not justified. CBO estimated the cost of this eligibility change to be $7 million per year.

Mortgage Insurance for Severely Disabled Veterans.—Severely disabled veterans who have received grants for specially adapted housing from VA qualify for Veterans' Mortgage Life Insurance (VMLI) at a maximum amount of $90,000. The insurance is terminated when the veteran reaches age 70. The Committee may consider legislation to increase the amount of VMLI to $200,000 and to continue insurance after age 70. CBO estimated the increase to $200,000 in the amount of insurance would cost $2 million the first year and $11 million over five years. CBO estimated that the cost of continuing VMLI after age 70 would be negligible the first year and $3 million over five years.

ADDITIONAL VIEWS AND ESTIMATES

March 11, 2002.

Hon. CHRISTOPHER H. SMITH,
Chairman, Committee on Veterans' Affairs,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: Thank you for the opportunity to review the recommendations which you and Congressman Evans plan to submit to the Committee on the Budget with respect to the budget for veterans' programs for fiscal year 2003.

Following are additional views and estimates which I wish to propose:

$30 million for FY 2003 to provide VA health care for all non-service connected Filipino World War II veterans residing in the United States, using the same eligibility criteria as are used for U.S. veterans.

$.5 million for FY 2003 to expand access at the VA Outpatient Clinic in Manila for both service-connected and non-service-connected Filipino World War II veterans residing in the Philippines (to provide full health care, including service-connected and non-service-connected disabilities).

I appreciate your consideration of these additional budget items.

Sincerely,

BOB FILNER,
Member of Congress

Comparison of President's Proposed Budget, Independent Budget and VA Committee Recommendations for the Department of Veterans Affairs

(Budget Authority in millions)

	FY 2002 Estimate	FY 2003 Administration Request[1]	Admin. Request +/− 2002	Independent Budget (IB)	IB +/− FY 2002	VA Committee Recommendation[2]	VA Committee +/− 2002
Medical Care (excluding receipts)	$21,331	$22,744	+$1,413	$24,468	+$3,137	$24,534	+$3,203
MCCF and HSIF receipts	1,031	1,449	+418	No estimate provided	...	1,189	+158
Research	371	394	+23	460	+66	394	+23
Construction, Major	183	194	+11	401	+218	385	+202
Construction, Minor	211	211	...	400	+189	250	+39
State Nursing Home and Cemetery Grants	125	132	+7	142	+17	142	+17
General Operating Expenses (excludes credit reform)	1,199	1,256	+57	1,264	+66	1,271	+72
National Cemetery Administration	121	133	+12	138	+17	133	+12
Other Discretionary (includes credit reform)	288	293	+5	No estimate provided	...	300	+12
Total VA Discretionary (Excluding MCCF and HSIF Receipts)	23,829	25,357	+1,528	....	....	27,407	+3,578
VA Mandatory Spending	26,997	30,123	+3,126	No estimate provided	...	30,234	+3,237

[1] 2003 Administration Request is calculated without proposed accrual funding for federal retiree costs.

[2] VA Committee Recommendation does not assume enactment of Administration's proposed $1,500 deductible for veteran healthcare users, transfer of VETS from Labor to VA, or increased accrual funding for federal retiree costs.